 15 FEB 1983

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Yugoslavia

The international committee coordinating the role of Western commercial banks in the financial rescue effort for Yugoslavia met last week to review the report on Yugoslavia's needs compiled by a team of bank economists. According to press reports, the economists recommended that the banks put up less new credits, but refinance more maturing loans than proposed by the IMF.

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Several points of disagreement must be resolved before Western governments, commercial banks, the Bank for International Settlements (BIS) and the IMF can complete their financial package for Yugoslavia. US and West European banks apparently have not yet resolved their dispute over each side's share in the new credits. The banks also remain concerned about equitable burdensharing between themselves and Western governments. The banks believe that the $1.3 billion package pledged by Western governments does not contain enough untied financial credits and that the governments are not increasing their exposure sufficiently with Yugoslavia. The Yugoslavs are continuing to

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resist the BIS requirement that they pledge gold collateral for $200 million of the $500 million loan offered by central banks. Belgrade may also object to the commercial banks' demand that the National Bank be the guarantor of all refinanced credits and the borrower of all new credits.

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Hungary

According to press reports, Hungary has persuaded the Arab Banking Corporation and the Bank of Tokyo to join Deutsche Bank as lead managers for a $200 million syndicated loan. Arab Banking will try to line up support from Persian Gulf banks while the Bank of Tokyo will launch a similar effort in Asia. The Hungarians apparently turned to these banks after Deutsche Bank's approaches to West European banks received a lukewarm response. The US Embassy in Budapest reports that only a few banks with substantial exposure in Hungary have shown any interest in the loan. Although a US bank's effort to arrange a $200-300 million syndication for Hungary failed last month, several banking sources believe that the new approach can succeed with Arab and Japanese support. Nonetheless, the lead managers must drum up more enthusiasm among West European banks in order to win sufficient Middle Eastern and Asian participation. [redacted] 25X1

Although [redacted] Hungary is 25X1 receiving substantial trade financing from banks, Budapest needs a sizable medium-term credit to cover its debt repayments and avoid depletion of its reserves. The Hungarians also hope that a global syndication will reestablish their credit rating. [redacted] 25X1

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Romania

Romania and nine major Western banks meeting in Paris on 2-3 February agreed on terms for rescheduling debt due to private creditors in 1983. The agreement calls for 70 percent of principal payments to be rescheduled over six and one-half years including three years' grace, with the remaining 30 percent due in the second half of this year. The rescheduled obligations will carry an interest rate of one and three-quarters percent over LIBOR. The terms are the same as in the 1982 agreement with the banks except that last year's pact covered 80 percent of principal payments.

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The proposed terms now have to be submitted for approval to the rest of Bucharest's roughly 300 bank creditors. Last year, disputes among creditors delayed conclusion of the agreement from February, when the nine banks and the Romanians agreed on terms, until December, when the agreement was signed. We believe the 1983 rescheduling should progress more smoothly.

-- The amount being rescheduled this year is only $600 million, according to press reports, compared to $1.5 billion last year.

-- The terms are somewhat more favorable for the banks.

-- Bucharest is earning large trade surpluses in order to turn around its hard currency accounts and to meet obligations under the 1982 agreement.

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